To: All Members

Ref: 17/127

Classification: Membership Technical

Date: 10 April 2017

Subject: **LMESMART: INTRODUCTION OF DYNAMIC PRICE BANDING**

Summary

1. This Notice provides details of the LME's implementation of Dynamic Price Banding on LMEsmart, which will be adopted from Tuesday 2 May 2017. This Notice should be read in conjunction with the LME Notice 17/050, issued on 3 February 2017, which provided Members guidance in relation to the implementation of Dynamic Price Limits on LMEselect.

Defined terms

2. Capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the rules and regulations of the LME (the "Rules").

Background

3. Members will be aware that in order to comply with the Markets in Financial Instruments Directive II (MiFID II), the LME will be introducing Dynamic Price Banding in LMEsmart. This functionality provides an effective control measure against trades being submitted at prices that do not reflect prevailing market prices.

4. In the event that a Member wishes to submit a trade that they consider falls outside of the prevailing limits then the trade will be rejected and they will need to contact the LME. In such cases the LME will request such information as it considers necessary to allow the trade to be resubmitted.

Dynamic Price Banding

5. Dynamic Price Banding will create price channels around a reference price outside of which trade halves will not be accepted into LMEsmart for matching. The width of these price channels, which will be determined by the LME from its market analysis, will be subject to periodic review and will be published on the LME website.

6. Each trade half will be validated against an upper and lower Price Band. LMEselect will deliver price curves to LMEsmart throughout the day to create the required price channels. The active Price Band will be configured to Normal, Wide or Wider to reflect current market conditions.

7. If LMEselect Price Band data is not available for the given contract then the previous day's closing prices will be used to create the price channels. Should this scenario occur then LMEsmart will default to using the Wider multiplier in its calculations.

8. Dynamic Price Banding will be applicable to the five 'Trade Categories' documented within the new 'Matching Rules'.

9. The LME, at its sole discretion, may choose to revise the Dynamic Price Banding values if it deems it to be in the best interests of the market.

10. Current LMEselect Dynamic Price Banding limit values can be found in Appendix 1.

    Any questions should be directed to Post Trade Operations at posttradeoperations@lme.com.

Stuart Sawyer
Head of Post Trade Operations

cc: Board directors

Appendix 1

LMEselect Price Banding Limits

METALS - OUTRIGHTS									
CA	AH	ZN	NI	PB	SN	AA	NA	CO	MO
$100	$50	$50	$195	$50	$350	$75	$75	$6000	$4000

STEEL / FERROUS / PREMIUM - OUTRIGHTS						
FM	SR	SC	AE	AN	AS	AW
$100	$60	$40	$60	$100	$60	$60

Please note that values displayed in the table are + / - either side of the prevailing market price. For example, if a value is stated as $10, the full range will be $20 (+10 / -10 of the market price).

For Monthly Average Futures and LMEminis the limits will be the same as those specified in the parent contracts.

LMEsmart Dynamic Price Banding (Futures)

- **Normal** 1.5 times the normal band differentials
- **Wide** 2 times the normal band differentials
- **Wider** 4 times the normal band differentials

LMEsmart Dynamic Price Banding (Options)

METALS - OPTIONS							
CA	AH	ZN	NI	PB	SN	AA	NA
$75	$50	$50	$150	$50	$75	$50	$25

Please note that values displayed in the table are + / - either side of the prevailing market price. For example, if a value is stated as $10, the full range will be $20 (+10 / -10 of the market price).

- **Normal** 1.5 times the normal band differentials
- **Wide** 2 times the normal band differentials
- **Wider** 4 times the normal band differentials

LMEselect Price Band data will not be available for options at the point of 'go-live' so therefore the previous day's closing prices will be used to create the required price channels